

ECONOMIC INDICATORS

JANUARY - FEBRUARY 2000



REVIEW OF RECENT ECONOMIC DEVELOPMENTS

California ended 1999 on a very strong note. Robust holiday sales aided a year-end burst of employment growth, especially in the trade and service sectors. Rising home prices and mortgage rates may have slowed home sales but they have not dampened home and business construction growth.

EMPLOYMENT

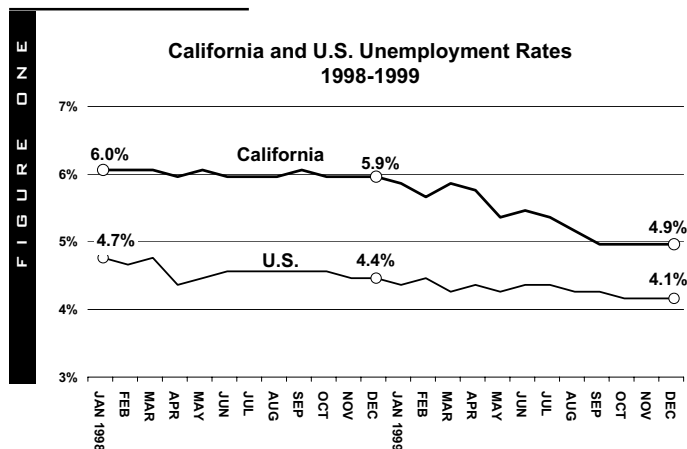
NONFARM EMPLOYMENT
GREW 2.9 PERCENT

Nonfarm employment grew strongly during the last quarter of 1999. Over the year, industry employment increased by nearly 402,000 jobs or 2.9 percent. Over one-third of the rise occurred during the last three months. Trade employment, both wholesale and retail, led this end of the year rush by adding over 56,000 jobs. Service job growth was close behind, increasing by over 46,000.

During December, nonfarm job growth was led by trade, services, government and construction. A robust holiday shopping season led the trade sector to add 31,600 jobs, primarily at retail establishments. Services added almost 15,000 jobs in December with nearly half in business services—which includes computer programming and personnel supply services. Local government employment accounted for nearly all of the gain in government employment. The continued strength of building activity led to the addition of 4,300 construction jobs.

UNEMPLOYMENT STEADY
AT 4.9 PERCENT

The state's unemployment rate—estimated from a limited survey of households—held steady at 4.9 percent in December for the fourth consecutive month. The rate was 5.9 percent in December 1998. The state's rate also now stands less than one percentage point above the national rate. Civilian employment, which includes self-employed and agricultural workers, jumped by 90,000 in December and was up a half-million workers over the year-end 1998 level.



The established regional unemployment pattern persists. The San Francisco Bay Area labor markets are the tightest. Marin County's unemployment rate is the lowest at 1.2 percent. Unemployment is also low in the Los Angeles and San Diego areas. In stark contrast, the Central Valley and far northern regions continue to suffer from much higher rates.

BUILDING ACTIVITY

After showing some weakness in October, construction activity accelerated in the last two months of the year—most likely due to the unusually dry winter weather. Total permitted construction value, measured on a year-over-year basis, grew by 18.9 and 21.6 percent in

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1999 ECONOMIC SNAP SHOT

EMPLOYMENT

	1998	1999
Civilian Unemployment Rate (annual average)	5.9%	5.3%
1998-99 Growth		
	Jobs	Percent
Total Nonfarm	401,800	2.9%
Mining	-1,100	-4.5%
Construction	55,900	8.9%
Manufacturing	-9,200	-0.5%
Durable Goods	-16,300	-1.3%
Nondurable Goods	7,100	1.0%
Transportation & Public Utilities	24,800	3.5%
Trade	78,800	2.5%
Wholesale Trade	24,000	3.0%
Retail Trade	54,800	2.3%
Finance, Insurance & Real Estate	6,600	0.8%
Services	189,300	4.4%
Government	56,700	2.6%
Federal Government	-4,900	-1.8%
State & Local Government	61,600	3.2%

CONSTRUCTION & REAL ESTATE

	1998-99 Growth	
	Units/Value	Percent
Residential Units Permitted *	14.5	11.5%
Single Family *	7.1	7.6%
Multi-family *	7.4	23.4%
Construction Value Permitted **	\$ 5,539	15.0%
Residential **	\$ 3,849	17.6%
Nonresidential **	\$ 1,690	11.3%
Existing Single-family Homes		
Sales	41,025	6.5%
Median Price	\$ 18,108	9.1%

* 1,000s of units

** \$1,000,000s

November and December respectively. A significant part of the November gain was due to the issuance of a permit for the Disney Concert Hall construction valued at \$172 million. Without this permit, the November gain would still have been about 13 percent.

Residential construction, measured by permitted units, followed a similar pattern. On a year-over-year basis, total permitted units grew 3.8 percent in November followed by a healthy 10.8 percent jump in December. Single-family construction growth in December—9.6 percent from a year earlier—was positive for the first time in four months.

Worsening home affordability led existing home sales to continue a slide that began in October. Median single-family home prices posted year-over gains of 12.6 and 11.8 percent in November and December respectively. The median single-family home price in December was \$221,500—essentially equal to November. In addition, the average 30-year fixed mortgage interest rate in December 1999 stood at 7.91 percent—more than a full percentage point higher than the December 1998 average of 6.74 percent. Sales of existing single-family homes in December—631,880 at a seasonally adjusted annual rate—were 3.5 percent less than in December 1998. This is the first year-over-year decline registered since September 1995.

Overall, 1999 was the best year of the decade for the California. Over 400,000 nonfarm jobs were created, civilian employment jumped nearly 500,000 and the average unemployment rate for the year dropped over one-half of a percentage point.

The service sector continued as the primary engine of employment growth—accounting for almost half of the additional jobs. Over a quarter of service employment growth was in business services, which includes computer programming and personnel supply services.

Manufacturing employment slipped slightly in 1999—losing over 9 thousand jobs. The healthy gains in nondurable goods, primarily food processing, couldn't outweigh losses in durable manufacturing—burdened by losses in computers, electronics and transportation equipment. However, by the second half of last year, strong recoveries in much of Asia helped boost California-made exports, leading to tentative signs of recovery in the electronics and computer industries.

Construction was the fastest growing major sector in 1999. It expanded by almost 9 percent over the year, adding nearly as many jobs as in 1998.

Rapid construction employment growth is explained by excellent construction and real estate performance in 1999. Both residential and nonresidential construction posted healthy gains—each registering double-digit growth. Residential building, measured by permitted units, was led by

REAL
ESTATEEXISTING HOME
SALES SLIP

— . . . —

1999
OVERALL

strong growth in the multi-family sector. Building additions and alterations accounted for the lion's share of nonresidential construction growth. Within the commercial sector, store construction was responsible for nearly all of the growth. Office building, amusement and recreation, and parking garage construction actually declined in 1999.

2000-2001 ECONOMIC OUTLOOK

The following is from the Governor's 2000-01 Budget. The forecasts were prepared in late November 1999 and are based on information available at that time.

By any measure, 1999 was a remarkable year for the U.S. and California economies. Nationally, real economic growth averaged almost 4 percent—a very strong pace for an expansion that in February will become the longest upturn in U.S. history. Despite robust growth and low unemployment, which reached a 30-year low of 4.1 percent in November 1999, inflation has remained subdued. Consumer prices averaged a 2.2 percent increase last year, while the more comprehensive gross domestic product (GDP) price index rose a scant 1.2 percent.

There is little doubt that California is now a full participant—more accurately a leading force—in the nation's remarkable economic growth. The state's unemployment rate, at 4.8 percent in November, is the lowest ever recorded on the current basis, which dates from January 1970. The gap between the U.S. and California jobless rates, which reached a peak of almost 3 percentage points in 1994, is currently down to 0.7 percent. California's nonfarm job growth of 3.3 percent last year was half-again the nation's 2.2 percent increase.

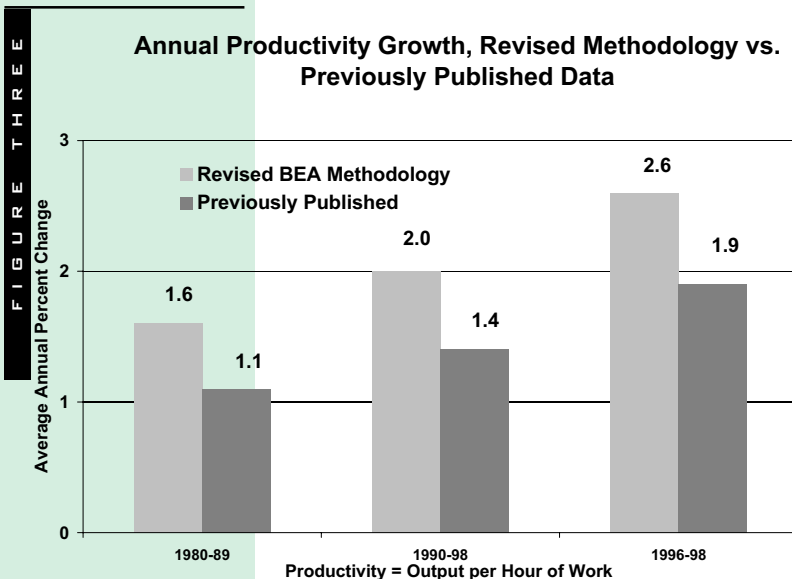
U.S. prospects for 2000 and 2001 have improved markedly in recent months. In late October, the U.S. Bureau of Economic Analysis (BEA) issued a major or "comprehensive" revision of gross domestic product, incorporating several important conceptual changes as well as routine data updates. The revised GDP figures reveal an economy growing at a faster pace than previously estimated. Most significantly, the additional growth is powered by productivity gains that are sharply higher than originally calculated. Indeed, in the new figures, growth in output per hour of

work is now approaching levels not seen since the "golden age" of U.S. productivity during the quarter century following World War II.

It is particularly encouraging that productivity has actually improved as the business cycle has aged. In virtually all recoveries, the rapid assimilation of underutilized plant and unemployed workers has provided a short-term boost to productivity in the early stages of a business upswing. But as factors of production become more fully employed, productivity gains become more difficult to achieve. Economies of scale are reached and incremental labor is often less experienced and less skilled as the jobless rate falls. However, as Figure 3 shows, in the current upswing, productivity gains in the late 1990s are actually higher than in the earlier stages of the recovery and expansion.

The difference in this cycle is the payoff from large, ongoing investments in information technology, which are boosting productivity in a wide variety of industries, especially in the service-producing segments of the economy. A striking example is in retail trade, where job growth of little more than 1 percent has lagged far behind the 6 to 7 percent growth in real sales volume, implying very large gains in sales per worker. The revised data provide a better and more positive picture of output and productivity in the financial

THE NATION: A CLEARER PICTURE



sector. Financial institutions have made huge investments in technology, and the new measurements clearly show the payoff in rising output per worker.

The gains in productivity are also a major element in keeping inflation low. Over the past year, for example, unit labor costs—the rise in wages offset by the increase in output per hour—rose by a scant 0.9 percent in the nonfinancial corporate sector, as a 3.8 percent rise in productivity absorbed most of the 4.8 percent increase in workers' hourly compensation.

Even considering the very slow 1 percent annual increase in the working-age population, the higher productivity figures imply potential economic growth of 3.5 percent per year or more—well above the 2.2 to 2.5 percent “speed limit” set by Federal Reserve policy makers less than two years ago. Worries over a tight labor market may persist, but the new figures suggest that a major slowdown in economic growth is unlikely.

Indeed, the main reason to expect a modest slowing of economic growth is the prospect of slower job gains, ultimately limited by the slow growth of the working-age population. The unemployment rate may yet fall a few more ticks, but it is hard to imagine that job gains can continue at twice the pace of labor force growth for too much longer.

Following are key elements of the 2000-01 U.S. economic forecast (also see Figure 8):

- Real GDP is expected to grow 3.1 percent this year and 2.8 percent in 2001. While still quite robust by past standards, the forecast represents a modest slowing from three consecutive years of 3.9 percent economic growth.
- Inflation inched up slightly in 1999, and is expected to rise a bit more in 2000. Rising industrial commodity prices and somewhat higher compensation costs are expected to boost consumer prices by 2.9 percent this year and 2.5 percent in 2001. The broader GDP price index is expected to remain below 2 percent, rising 1.7 percent in 2000 and 1.6 percent in 2001.
- The combination of low unemployment and the gradual up-tick in inflation will probably prompt the Federal Reserve to boost short-term interest rates by perhaps 0.5 percent in 2000, from late-1999 levels. Longer-term rates, which often move in anticipation of Fed action, will probably rise little more than 0.25 percent from recent levels.

CALIFORNIA: THE ENGINE OF GROWTH

It is difficult to overstate the contribution that California is making to the nation's improved economic prospects. The state has by far the largest concentration of high-technology industries and jobs anywhere in the world.

While high-tech manufacturing has suffered until recently from weak overseas demand, gains in computer services—mainly software and the Internet—are more than taking up the slack. In the year ending June 1999 (the latest data available) the computer services segment of business services grew at an annual pace of 16.1 percent. The 39,000 new jobs added during that period were more than double the job losses in the seven high-technology manufacturing industries combined (computers, electronics components, communications equipment, measuring instruments, aircraft, missiles and space, and navigation instruments). With mid-1999 employment of 281,400—almost certainly well over 300,000 by the beginning of this year—computer services is by far the largest single high-technology sector, nearly double the 157,000 workers in the electronics components industry.

Moreover, prospects for much of the high-technology manufacturing sector are also beginning to brighten—the result of a marked improvement in the outlook for major foreign economies. Recovery in most of Asia is now well established, and even in Japan it appears that the worst is over. Meanwhile, Mexico has recently surpassed Japan as California's leading overall export market, as the state's southern neighbor successfully weathered the effects of the 1998-99 South American currency crisis.

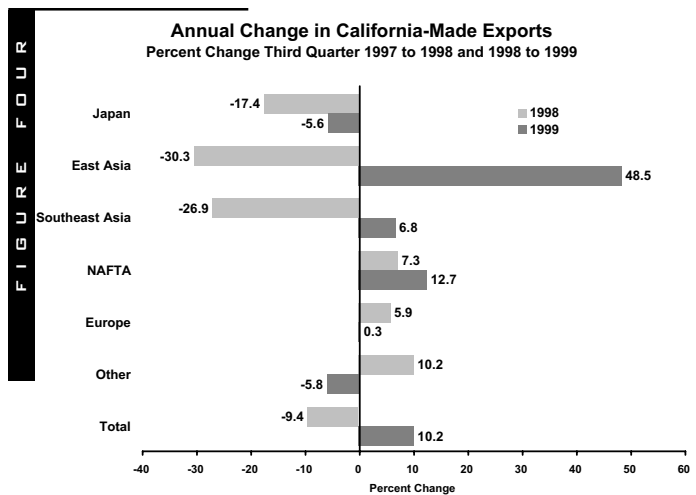
After stumbling in early 1999, major European economies are experiencing faster economic growth. The impact of stronger overseas growth is clearly visible in the sharp turnaround in California-made exports during the third quarter of 1999. Total California exports grew more than 10 percent over the year-earlier period—the first gain since 1997—while shipments to East Asia (excluding Japan) jumped almost 50 percent (Figure 4).

Among other major export industries, motion pictures will also benefit from stronger overseas economies.

Growth in motion picture production slowed in 1998 and early 1999, mainly reflecting cutbacks by major studios following overproduction and poor profitability in 1997 and 1998. In 1999, box office receipts were up over 9 percent, despite a reduction in the number of films in general release. With profits returning to the industry, there is renewed interest in undertaking major projects this year and in 2001. Although growth has slowed from the very high levels in the early 1990s, production jobs are still posting solid annual gains in the 4 to 5 percent range.

Key elements in the California forecast are as follows (and in Figure 8):

- California nonfarm employment is forecast to increase 2.9 percent this year—more than 400,000 new jobs—down slightly from 1999's 3.3 percent advance. In 2001, the state is expected to create 367,000 new jobs, a 2.5 percent increase over this year's expected level.
- California personal income will top the \$1 trillion mark for the first time in 2000. This year, personal income is expected to maintain the recent vigorous pace, rising 6.5 percent, little changed from 1999's estimated 6.6 percent increase. In 2001, income gains are expected to slow to 5.7 percent.
- Following four years of strong growth, California nonresidential construction is expected to post gains of 10.8 percent in 2000, followed by an 11.5 percent advance in 2001.
- Homebuilding remains the single cloud on California's otherwise bright economic horizon. Despite record sales of existing homes, accompanied by sharply higher prices, new home construction appears to have fallen short of 140,000 units last year. Continued modest growth to 154,000 new units this year and 167,000 in 2001 will depend crucially on the ability of builders to obtain lot and subdivision approvals from local planning agencies. Apart from housing's direct contribution to jobs and incomes, the low level of new construction activity may now be a constraining factor on economic growth in many of California's densely populated coastal counties.
- California's escalating housing costs are translating into a higher inflation rate. In 1999, the California consumer price index (a weighted average of the Bay Area and Los Angeles region CPIs) increased 3.0 percent, compared to the nation's 2.2 percent advance. The Los Angeles region index increased 2.4 percent, but in the Bay Area, prices jumped 4.3 percent, led by a 7.0 percent increase in rents and a 6.7 percent rise in homeowners' costs. Both figures are more than double the nationwide rise in housing costs of 2.9 percent. This year, the California inflation measure is expected to increase 3.5 percent, followed by a 3.3 percent rise in 2001.



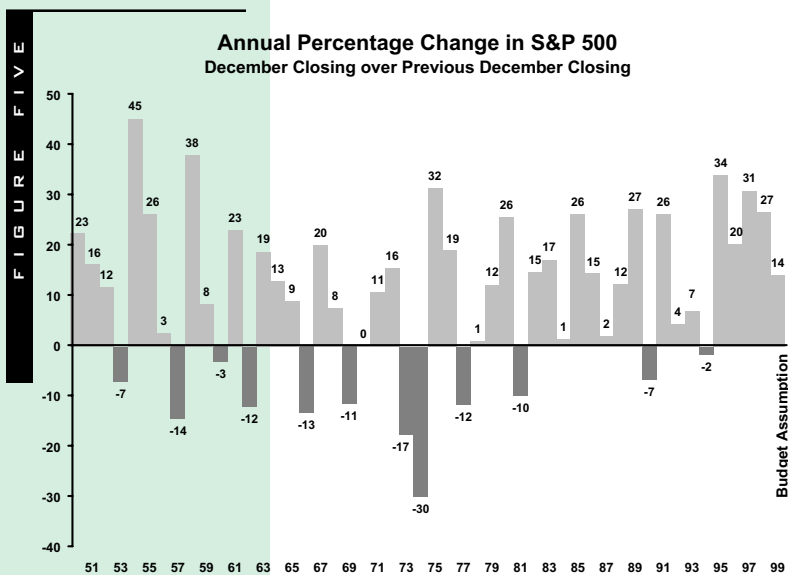
RISKS TO THE FORECAST

As the current economic expansion moves into record territory next month, the question inevitably will be asked, "How much longer can it continue?" Fortunately, business cycle expansions rarely "die of old age." Virtually every downturn has been triggered by an external shock, an economic policy error, or the emergence of imbalances and excesses in the economy.

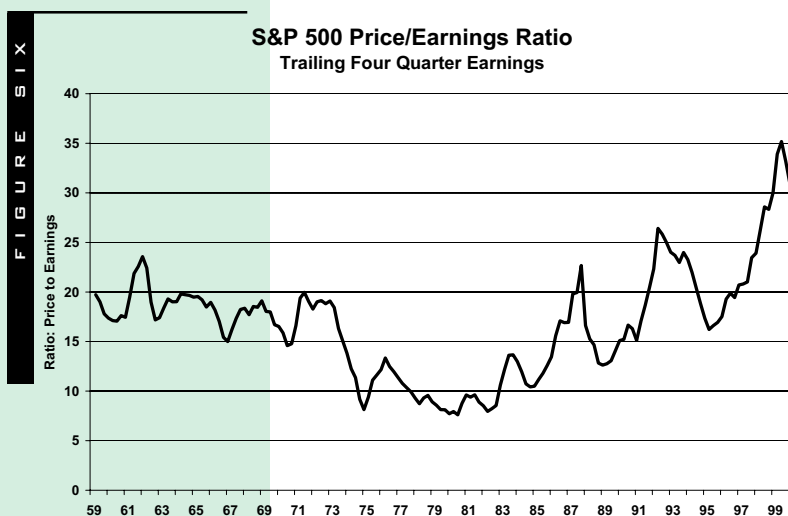
By their very nature, external shocks are nearly impossible to predict. It is noteworthy, however, that a near tripling in oil prices from late 1998 to late 1999 has to date had no visible effect on the strength of the current upswing.

A major policy error would require that the Federal Reserve discard its current cautious and well-reasoned approach to monetary policy. As noted, the Fed has been quite willing to accept the higher economic growth rates implied in the new GDP figures. It continues to express concern over the possible effects of tight labor markets on employee compensation, but the rate of wage increases actually moderated somewhat in the second half of last year, even as the jobless rate fell to a 30-year low.

Interest rates are notoriously difficult to predict, but a large policy-induced leap of 2 percent or more, for example, does not seem justified by current or prospective economic conditions.

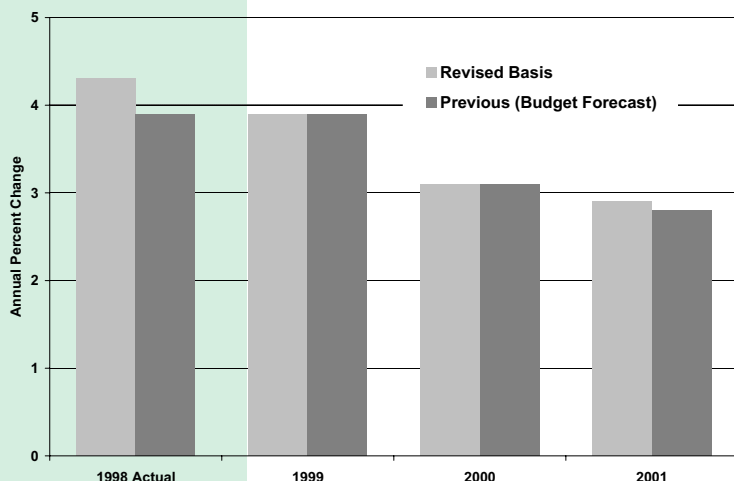


In the past, excess business inventories, nonresidential overbuilding, high household debt burdens or sharp increases in prices and interest rates have been significant contributors to economic downturns. None of these is present in today's economy. In fact, the overall ratio of business inventories to sales is at a record low. The excesses of the 1980s boom in new office construction have been avoided. The household debt service ratio (the proportion of incomes needed to make contractual monthly payments) is high, but still comfortably below the 1989 peak. Inflation has actually declined through much of this long expansion, and the small gain expected this year mainly reflects a rise in worldwide industrial commodity prices—led by oil—and a modest up tick in wages. At the same time, abundant crops are leading to significant declines in most farm commodity prices.



The stock market is the one important segment of the economy that raises legitimate grounds for concern. The most basic valuation of the market, the price to earnings ratio (P/E), hit record levels in 1999. In the first half of last year, prices of shares in the Standard and Poor's 500 stock index reached nearly 35 times the previous year's earnings—by far the highest since records began in 1926.

Moreover, the P/E ratio has been at unprecedented levels since 1997 (Figure 6), a fact that has made most economic forecasters—including those at the Department of Finance—very reluctant over the last several years to project further outsized gains in stock prices. Because the market affects both consumer spending (by making share-owning households wealthier) and business investment (by

Real GDP Growth—Revised and Previous Basis

lowering the cost of capital), the continued surge in stock prices is the principal source of most recent forecasting errors. A large and increasing share of California General Fund revenue is directly related to the market, in the form of both capital gains and employee stock options.

Several explanations have been offered for the persistently high stock market valuation, many of them on rather arcane statistical grounds that do not stand up to close scrutiny. Perhaps the most plausible explanation is that the market is in the midst of a systemic re-evaluation of future investment returns, reflecting significantly enhanced prospects for U.S. economic growth based on the apparent upswing in productivity. The problem is that it is difficult to gauge first, whether higher productivity represents a lasting trend or a one-time

increase, and second, how much of the new productivity trend has by now been incorporated into stock prices.

Given this uncertainty, the forecast assumes modest increases in stock prices over the 2000-01 horizon, below the double-digit gains of the last five years. The stock market could very well continue to soar by 10 or 20 percent a year, in which case both economic and revenue forecasts will have again been underestimated. But from these lofty levels, a decline in the market clearly cannot be ruled out.

Moreover, a growing number of market analysts are becoming increasingly uncomfortable with the massive market valuations placed on "dot.com" and other software stocks, many of them recent initial public offerings with few prospects of turning a profit in the foreseeable future. The ability of these companies to attract capital has no doubt been an important element in California's recent economic growth, but the state's exposure to this highly speculative segment of the market is also significantly greater than in most other parts of the nation.

On October 28, 1999, the U.S. Bureau of Economic Analysis (BEA) released a "comprehensive revision" to the national income and product accounts. In addition to annual and tri-annual data revisions, the new figures incorporate several important conceptual changes, including the addition of software to business fixed investment and improved measures of output in the financial services sector. Personal income revisions were also significant, conforming the treatment of public sector pensions to similar private pension plans.

Given the scope of the revisions, detailed historical data are being released over a three-month period, delaying the necessary re-estimation of the U.S. model used by the Department of Finance. Moreover, state personal income figures will not be revised to reflect the new definitions until May 17, 2000, thus temporarily breaking an important link between the U.S. and California forecasts.

In these circumstances, this forecast is based on the pre-revision data set, but takes account of the new, higher productivity trend revealed in the new data. As a check, the Department ran the U.S. forecast on a version of the national model that essentially translates the old data into the new framework and base year. (Inflation measures were updated to a base of 1996 = 100 from the previous 1992 reference point.) As shown in Figure 7, the new and old basis forecasts are virtually identical.

Selected Economic Data for 1999, 2000, and 2001

United States	1999	2000	2001
Real gross domestic product (1992 dollar) (percent change)	3.9	3.1	2.8
Personal consumption expenditures	5.1	3.1	3.2
Gross private domestic investment	6.9	5.9	4.8
Government purchases of goods and services	2.2	1.8	1.3
GDP Deflator (1992=100) (percent change)	1.2	1.7	1.6
GDP (current dollar) (percent change)	5.2	4.9	4.4
Federal funds rate (percent)	5.01	5.82	5.90
Personal income (percent change)	5.2	5.3	5.0
Corporate profits before taxes (percent change)	9.1	5.6	-6.0
Nonfarm wage and salary employment (millions)	128.6	130.9	133.0
(Percent change)	2.2	1.8	1.6
Unemployment rate (percent)	4.2	4.0	4.0
Housing starts (millions)	1.67	1.56	1.55
(Percent change)	3.1	-6.7	-0.8
New car sales (millions)	8.7	8.6	8.5
(Percent change)	5.5	-1.3	-0.9
Consumer price index (1982-84=100)	166.7	171.6	175.8
(Percent change)	2.2	2.9	2.5
California			
Civilian labor force (thousands)	16,573	16,894	17,264
(Percent change)	1.5	1.9	2.2
Civilian employment (thousands)	15,691	16,078	16,460
(Percent change)	2.2	2.5	2.4
Unemployment (thousands)	882	816	805
(Percent change)	-8.9	-7.5	-1.4
Unemployment rate (percent)	5.3	4.8	4.7
Nonfarm wage and salary employment (thousands)	14,067	14,478	14,845
(Percent change)	3.3	2.9	2.5
Personal income (billions)	\$963.8	\$1026.8	\$1085.4
(Percent change)	6.6	6.5	5.7
Housing units authorized (thousands)	140	154	167
(Percent change)	11.7	9.8	8.4
Corporate profits before taxes (billions)	\$89.4	\$92.3	\$94.9
(Percent change)	6.3	3.3	2.7
New auto registrations (thousands)	1,589	1,595	1,637
(Percent change)	9.7	0.4	2.6
Total taxable sales (billions)	\$390.5	\$412.8	\$437.4
(Percent change)	8.8	5.7	6.0
Consumer price index (1982-84=100)	168.6	174.6	180.3
(Percent change)	3.0	3.5	3.3

Note: Percentage changes calculated from unrounded data.

SELECT INDICATORS

EMPLOYMENT

	1999				1998	Yr-Over-Yr % Change
	Dec	Nov	Oct	Sep	Dec	
EMPLOYMENT (Seasonally Adjusted)						
Civilian employment (000)	15,951	15,861	15,839	15,775	15,453	3.2
Unemployment (000)	824	813	815	817	968	-14.9
Unemployment rate	4.9	4.9	4.9	4.9	5.9	--
Nonagricultural wage and salary employment (000)	14,184.7	14,121.0	14,067.9	14,039.6	13,782.9	2.9
Mining	23.5	23.7	23.7	23.7	24.6	-4.5
Construction	683.0	678.7	672.1	667.4	627.1	8.9
Manufacturing	1,950.3	1,949.7	1,947.5	1,953.6	1,959.5	-0.5
High technology a/	505.8	507.5	507.9	510.6	524.1	-3.5
Aircraft and parts	78.7	79.8	80.1	80.7	87.2	-9.7
Missiles and space vehicles	21.5	21.7	21.9	22.2	24.0	-10.4
Search and navigation equipment	52.8	53.5	53.4	53.9	56.5	-6.5
Computer and office equipment	87.6	87.9	88.4	88.8	91.9	-4.7
Communications equipment	36.0	35.9	35.9	36.3	36.9	-2.4
Electronic components	157.9	157.7	157.6	157.9	156.5	0.9
Measuring and controlling devices	71.3	71.0	70.6	70.8	71.1	0.3
Transportation and public utilities	726.6	724.3	720.5	717.8	701.8	3.5
Trade	3,237.3	3,205.7	3,188.5	3,181.1	3,158.5	2.5
Finance, insurance and real estate	814.8	814.3	815.0	812.8	808.2	0.8
Services	4,493.5	4,478.6	4,464.5	4,447.0	4,304.2	4.4
Government	2,255.7	2,246.0	2,236.1	2,236.2	2,199.0	2.6

HOURS & EARNINGS

HOURS AND EARNINGS IN MANUFACTURING (Not seasonally adjusted)						
Average weekly hours	42.1	42.0	41.8	41.4	42.5	-0.9
Average weekly earnings	\$593.61	\$589.26	\$584.78	\$581.67	\$591.18	0.4
Average hourly earnings	\$14.10	\$14.03	\$13.99	\$14.05	\$13.91	1.4

CONSUMER PRICES

CONSUMER PRICE INDEX (1982-84=100) Not seasonally adjusted						
All Urban Consumers Series						
California Average	170.0	n.a.	170.2	n.a.	165.1	3.0
San Francisco CMSA	174.5	n.a.	175.2	n.a.	167.4	4.2
Los Angeles CMSA	167.3	167.1	167.2	167.2	163.5	2.3
Urban Wage Earners and Clerical Workers Series						
California Average	163.8	n.a.	163.7	n.a.	159.0	3.0
San Francisco CMSA	170.9	n.a.	171.2	n.a.	163.7	4.4
Los Angeles CMSA	160.9	160.6	160.7	160.7	157.2	2.4

CONSTRUCTION

CONSTRUCTION						
Private residential housing units authorized (000) b/	143.4	142.1	127.0	125.8	129.5	10.8
Single units	108.4	93.1	90.4	92.0	99.0	9.6
Multiple units	35.0	49.0	36.6	33.8	30.5	14.7
Residential building authorized valuation (millions) c/	\$2,526	\$2,110	\$1,852	\$1,943	\$2,065	22.3
Nonresidential building authorized valuation (millions) c/	\$1,568	\$1,720	\$1,299	\$1,435	\$1,303	20.3
Nonresidential building authorized valuation (millions) d/	\$1,283	\$1,456	\$1,438	\$1,529	\$1,067	20.2
Commercial	524	578	455	575	384	36.7
Industrial	127	183	192	210	142	-10.4
Other	162	150	261	171	149	8.3
Alterations and additions	469	545	530	573	392	19.7

AUTO SALES

AUTO SALES (Seasonally adjusted)						
New auto registrations (number)	153,364	142,936	136,829	135,137	124,812	22.9

a/ Based on the 1987 SIC codes. These values are not seasonally adjusted.

b/ Seasonally adjusted at annual rate

c/ Seasonally adjusted

d/ Not seasonally adjusted

n.a. Not available

**SELECT
INDICATORS
(CONTINUED)**

**Vacancy Rates for Third Quarter 1999
(Percent)**

VACANCY RATES

	Office			Industrial
	Total	Downtown	Suburban	
Northern and Central California:				
Fresno	14.0	31.2	10.9	9.5
Oakland-East Bay	7.7	10.6	7.0	--
Sacramento	8.4	6.5	9.0	9.0
San Francisco	3.6	3.4	3.9	7.2
San Jose	4.1	4.9	3.8	--
Southern California:				
Bakersfield	17.9	12.3	20.9	--
Los Angeles	13.3	18.1	12.2	7.3
Orange County	11.8	--	11.8	--
San Diego	7.8	10.5	7.1	7.5
Ventura County	12.3	--	12.3	--
National Average	9.6	9.0	10.1	8.1

HOME PRICES

Median Price of Existing Single Family Homes

1998				1999			
Jan	\$190,550	Jul	210,830	Jan	\$202,370	Jul	221,370
Feb	186,420	Aug	207,780	Feb	196,838	Aug	222,948
Mar	193,910	Sep	202,138	Mar	213,490	Sep	220,330
Apr	198,250	Oct	194,961	Apr	217,090	Oct	219,136
May	202,960	Nov	197,058	May	225,480	Nov	221,887
Jun	209,000	Dec	198,121	Jun	226,140	Dec	221,499

**LEADING
INDICATORS/^A**

		Manufacturing		Unemployment	New	Housing Unit
		Overtime	Average	Insurance	Business	Authorizations
		Hours	Weekly Hours	Initial Claims	Incorporations	(Thousands)
1997	Jan	4.8	41.6	66,092	4,679	92.9
	Feb	4.8	41.8	56,785	4,347	124.2
	Mar	5.1	42.1	59,609	3,578	94.5
	Apr	5.0	41.9	59,107	4,061	103.3
	May	5.0	41.9	60,324	4,456	108.8
	Jun	5.0	41.9	63,124	4,405	108.7
	Jul	4.9	41.9	62,356	4,740	114.1
	Aug	5.0	42.0	62,326	4,213	114.0
	Sep	4.9	41.8	62,989	4,751	118.2
	Oct	4.9	42.0	61,242	4,681	131.4
	Nov	5.0	42.2	59,120	4,386	115.4
	Dec	5.2	42.1	58,601	4,815	109.3
1998	Jan	5.2	42.2	57,572	4,676	113.1
	Feb	5.0	41.9	60,703	4,543	116.2
	Mar	4.9	41.9	57,883	4,621	119.1
	Apr	4.5	41.1	58,845	5,275	116.1
	May	4.8	41.9	57,980	4,454	119.5
	Jun	4.9	41.9	54,154	4,777	148.3
	Jul	4.7	42.1	54,407	4,844	120.1
	Aug	4.7	41.7	53,096	4,357	135.8
	Sep	4.4	41.3	49,321	3,732	121.9
	Oct	4.7	41.8	53,693	4,617	132.8
	Nov	4.6	41.7	54,886	4,682	136.9
	Dec	4.6	41.8	54,275	4,602	129.5
1999	Jan	4.8	42.2	51,629	4,899	160.1
	Feb	4.7	41.9	53,117	5,023	144.0
	Mar	4.6	41.9	53,132	6,068	128.1
	Apr	4.7	41.9	53,377	5,371	137.3
	May	4.9	42.1	50,748	5,189	135.7
	Jun	4.8	41.9	51,006	5,621	156.3
	Jul	4.6	42.0	52,447	5,321	146.5
	Aug	4.6	41.6	49,824	5,783	137.0
	Sep	4.5	41.2	49,920	5,816	125.8
	Oct	4.8	41.6	48,707	5,534	127.0
	Nov	4.8	41.6	52,157	5,960	142.1
	Dec	4.9	41.4	45,043	4,337	143.4

a/ Seasonally adjusted by the California Department of Finance.

COINCIDENT INDICATORS/

EMPLOYMENT, UNEMPLOYMENT

		Nonagricultural Employment (Thousands)	Manufacturing Employment (Thousands)	Unemployment Rate (Percent)	Unemployment Avg. Weeks Claimed (Thousands)
1997	Jan	12,903	1,875	6.7	449
	Feb	12,966	1,886	6.5	410
	Mar	13,013	1,893	6.4	378
	Apr	13,074	1,900	6.4	399
	May	13,090	1,905	6.3	371
	Jun	13,123	1,913	6.3	384
	Jul	13,158	1,921	6.2	396
	Aug	13,176	1,925	6.2	375
	Sep	13,222	1,928	6.2	385
	Oct	13,261	1,936	6.2	383
	Nov	13,274	1,940	6.1	372
	Dec	13,337	1,949	6.1	381
1998	Jan	13,405	1,951	6.0	342
	Feb	13,425	1,956	6.0	362
	Mar	13,449	1,958	6.0	369
	Apr	13,487	1,959	5.9	369
	May	13,526	1,963	6.0	360
	Jun	13,555	1,964	5.9	359
	Jul	13,606	1,964	5.9	349
	Aug	13,648	1,965	5.9	358
	Sep	13,680	1,966	6.0	358
	Oct	13,717	1,966	5.9	329
	Nov	13,749	1,961	5.9	351
	Dec	13,783	1,960	5.9	351
1999	Jan	13,828	1,959	5.8	362
	Feb	13,834	1,953	5.6	367
	Mar	13,852	1,949	5.8	377
	Apr	13,882	1,950	5.7	365
	May	13,939	1,951	5.3	381
	Jun	13,967	1,950	5.4	384
	Jul	13,977	1,945	5.3	348
	Aug	14,018	1,948	5.1	358
	Sep	14,040	1,954	4.9	369
	Oct	14,068	1,948	4.9	339
	Nov	14,121	1,950	4.9	343
	Dec	14,185	1,950	4.9	323

INCOME, WAGES, TAXABLE SALES

		Personal Income (\$ millions)	Wages & Salaries from Mining, Construction and Manufacturing (\$ millions)	Taxable Sales (\$ millions)
1995	Qtr I	737,678	85,168	72,857
	Qtr II	752,820	86,492	74,983
	Qtr III	760,687	87,799	75,964
	Qtr IV	765,892	88,762	76,901
1996	Qtr I	786,401	93,690	79,237
	Qtr II	791,576	90,948	80,184
	Qtr III	795,922	90,009	80,345
	Qtr IV	818,180	95,666	81,202
1997	Qtr I	826,792	99,871	83,079
	Qtr II	836,688	101,755	84,942
	Qtr III	849,492	103,650	85,985
	Qtr IV	871,098	106,328	87,745
1998	Qtr I	881,347	108,143	87,561
	Qtr II	892,438	110,432	89,118
	Qtr III	903,909	111,517	90,731
	Qtr IV	940,081	118,209	91,222
1999	Qtr I	946,727	117,162	95,254
	Qtr II	951,201	116,579	97,566
	Qtr III	n.a.	n.a.	97,992

a/ Seasonally adjusted by the California Department of Finance with the exception of the nonagricultural and manufacturing employment and the unemployment rate which are seasonally adjusted by the California Employment Development Department.

n.a. Not available

OTHER INDICATORS

DOD Prime Contracts a/						Foreign Trade through California Ports			
	<u>\$ millions</u>	<u>% of U.S.</u>		<u>\$ millions</u>	<u>% of U.S.</u>		<u>\$ millions</u>		<u>\$ millions</u>
1981-82	22,685	21.8	1990-91	24,265	19.5	1998		1999	
1982-83	26,387	22.2	1991-92	23,843	21.2	Jan	24,636	Jan	23,484
1983-84	28,520	23.0	1992-93	22,952	20.1	Feb	23,778	Feb	23,751
1984-85	29,115	20.8	1993-94	22,573	20.5	Mar	26,921	Mar	26,988
1985-86	27,738	20.4	1994-95	18,277	16.8	Apr	25,220	Apr	25,670
1986-87	24,515	18.4	1995-96	18,230	16.7	May	24,566	May	25,717
1987-88	23,458	18.7	1996-97	18,477	17.3	Jun	26,028	Jun	27,897
1988-89	23,125	19.3	1997-98	17,401	15.9	Jul	25,158	Jul	27,901
1989-90	22,312	18.4	1998-99	17,372	15.1	Aug	25,358	Aug	28,956
						Sep	25,710	Sep	29,764
						Oct	27,217	Oct	30,408
						Nov	26,044	Nov	30,131
						Dec	25,610		

a/ U.S. fiscal year: October through September

TECHNICAL NOTE

ECONOMIC INDICATOR CHARTS

Series classification as leading or coincident indicators generally follows that established by the National Bureau of Economic Research. The exceptions to this are manufacturing employment and taxable sales. These series are discussed in the technical note below.

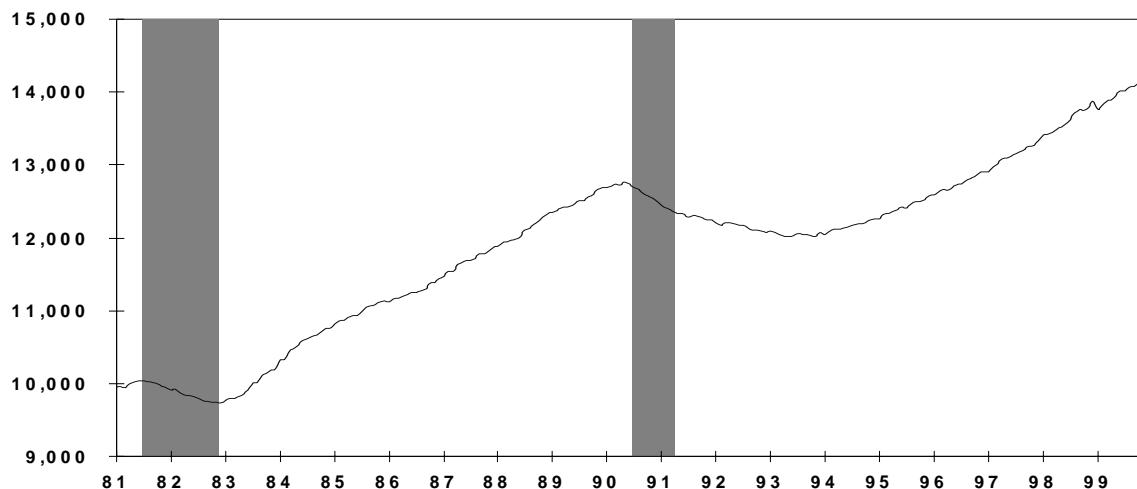
Whenever appropriate, data used in the charts have been seasonally adjusted. The method of seasonal adjustment is the X-11 Arima program. Persons interested in a detailed description of this method are referred to Statistics Canada, *The X-11 Arima Seasonal Adjustment Method* (Catalog No. 12-564E, February 1980).

Under the X-11 Arima method, the addition of new data points changes historical seasonal factors. To avoid monthly data changes in the California Economic Indicators it is necessary to “freeze” the seasonally adjusted data through the past year and manually compute current year values from the projected seasonal factors. Thus historical revisions will be incorporated annually.

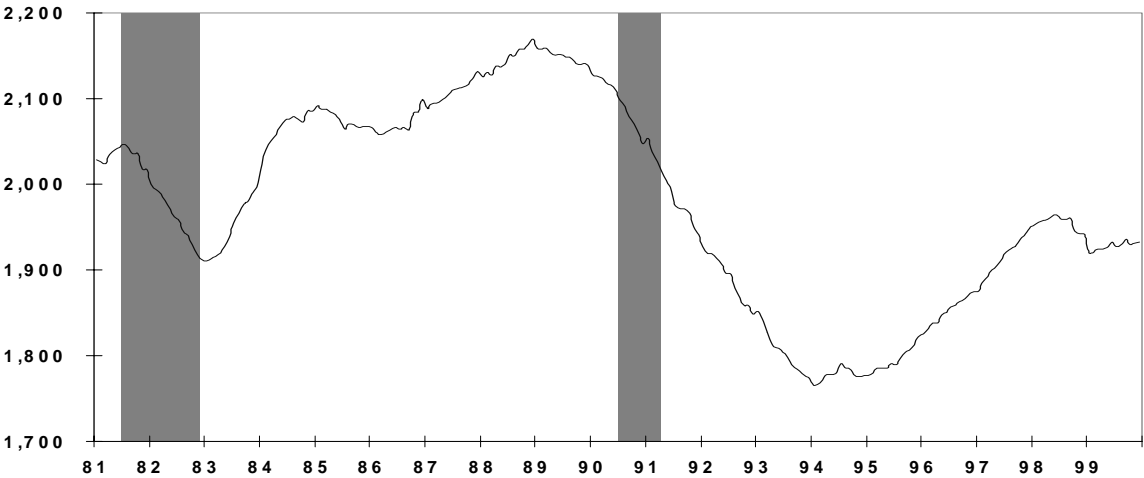
This series is an addition to the NBER indicator list. It is used here because it appears to show cyclical fluctuations clearly and extends the limited number of series presently available for the State.

Taxable sales are used here as a proxy for retail trade. Data on the latter are not available for California prior to 1964. The taxable series includes sales by both retail and wholesale establishments, and is, therefore, a broad indicator of business activity. It has been classified as a coincident indicator on the basis of fluctuations in the series since 1950. The other indicators shown are for general interest only. They are not directly related to the cyclical indicator series, but are of interest to persons looking at overall economic developments.

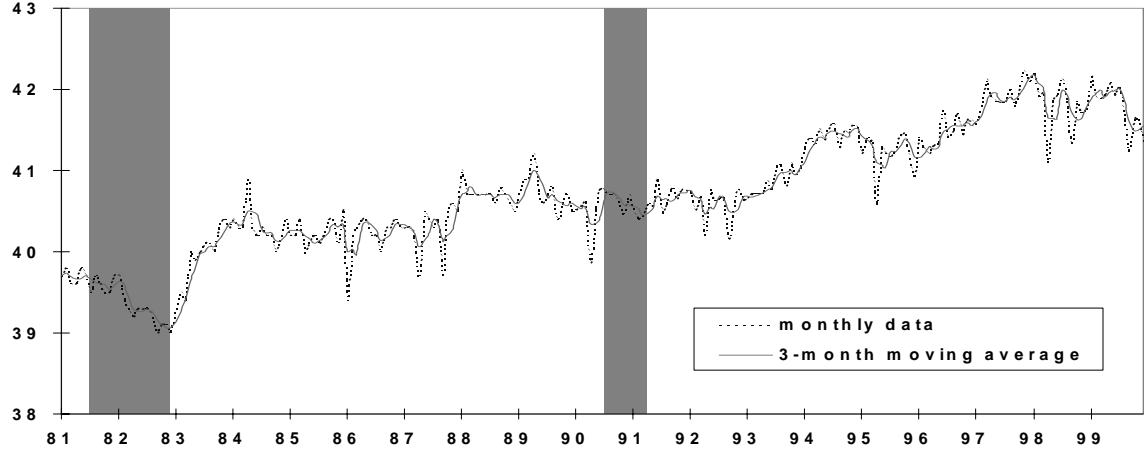
NONAGRICULTURAL EMPLOYMENT (THOUSANDS, SEASONALLY ADJUSTED)



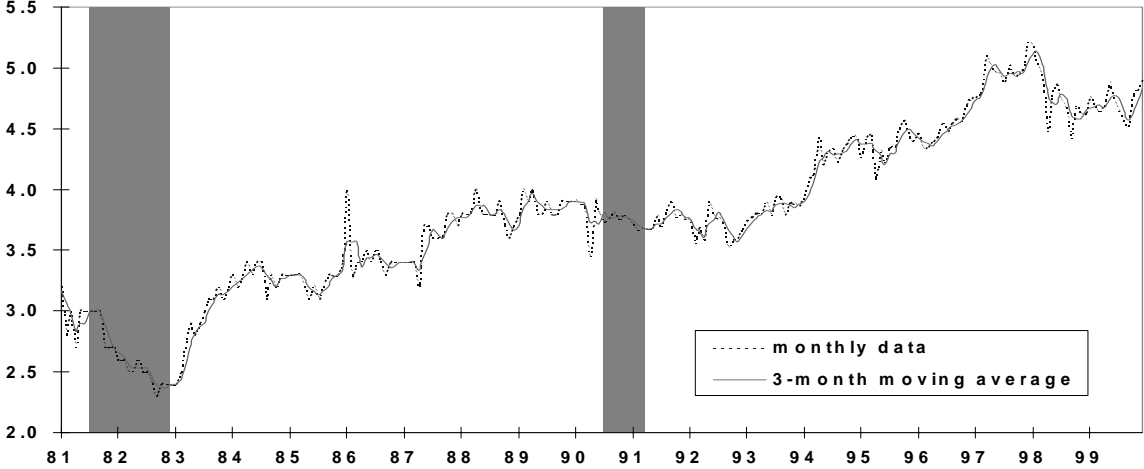
**MANUFACTURING
EMPLOYMENT**
(THOUSANDS,
SEASONALLY ADJUSTED)



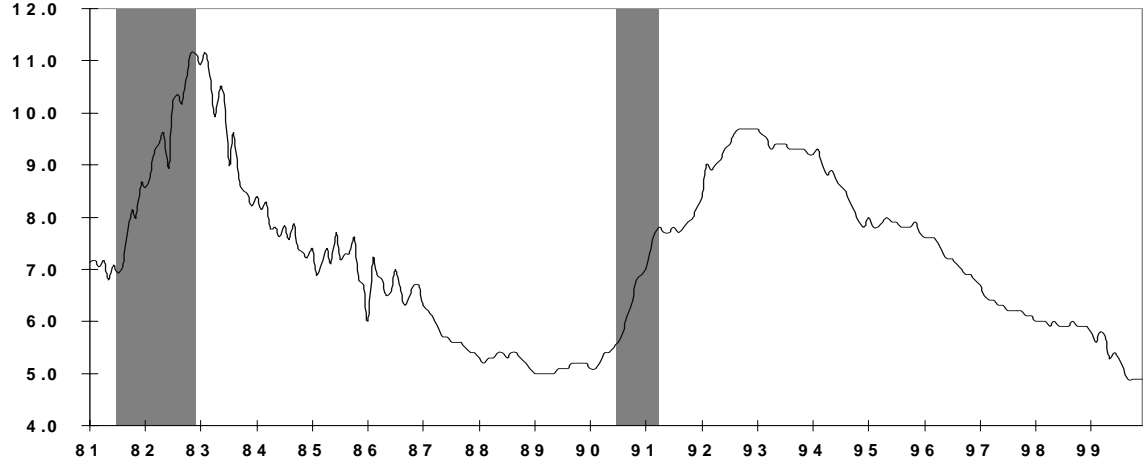
**AVERAGE WEEKLY
HOURS,
MANUFACTURING**
(SEASONALLY ADJUSTED)



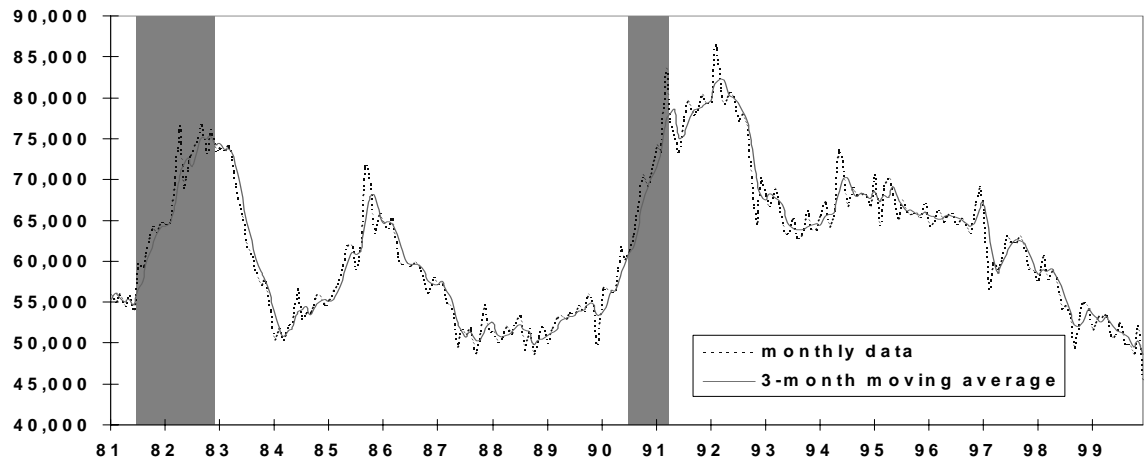
**AVERAGE OVERTIME
HOURS,
MANUFACTURING**
(SEASONALLY ADJUSTED)



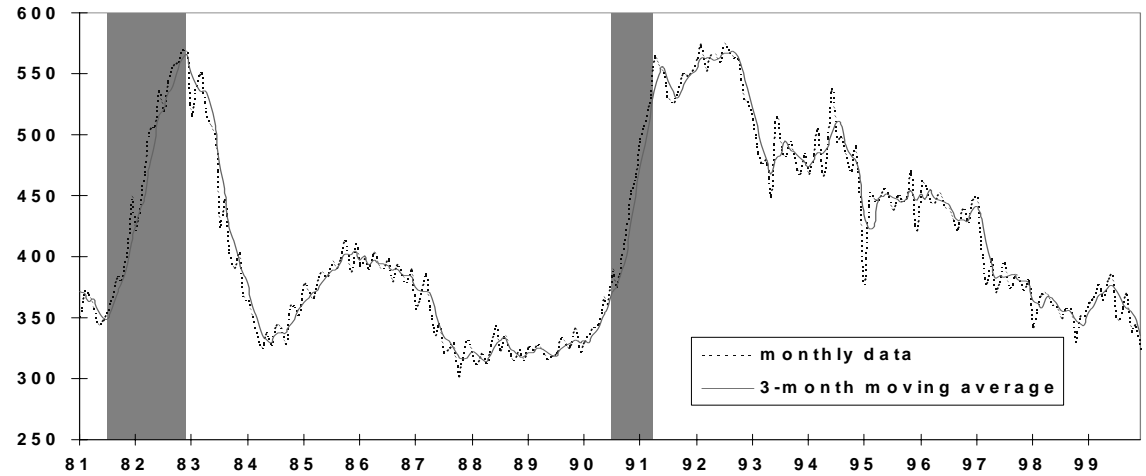
**UNEMPLOYMENT
RATE**
(PERCENT)



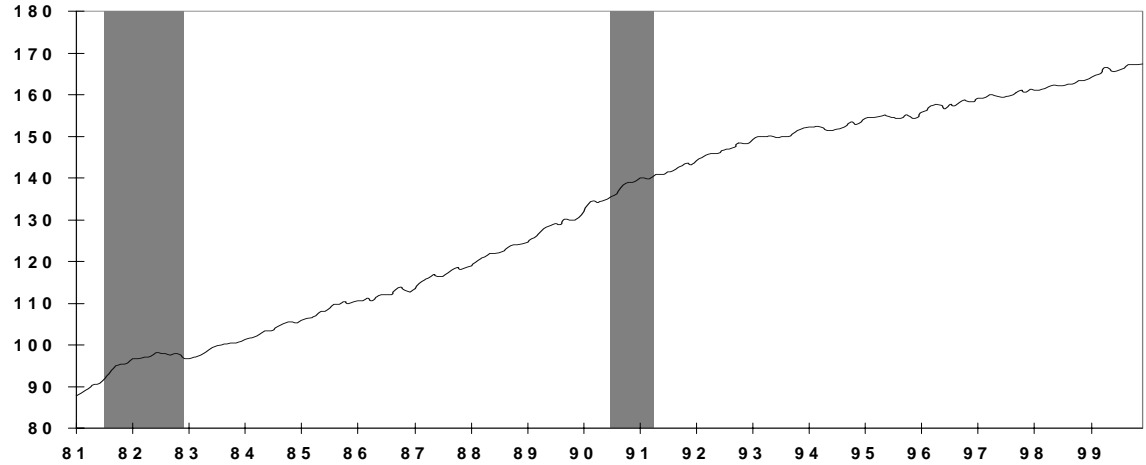
**INITIAL &
TRANSITIONAL CLAIMS
FOR UNEMPLOYMENT
INSURANCE**
(WEEKLY AVERAGE,
SEASONALLY ADJUSTED)



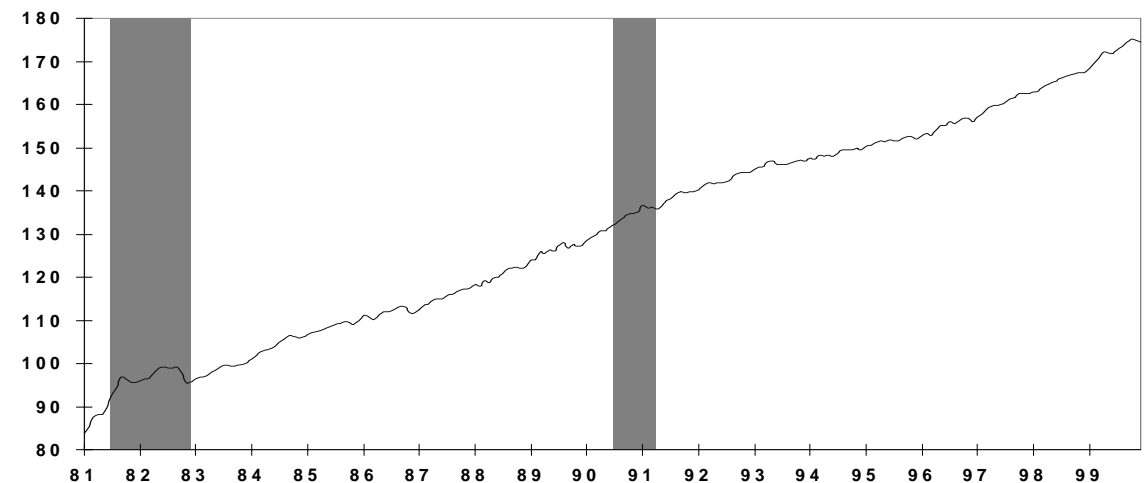
**UNEMPLOYMENT,
AVERAGE WEEKS
CLAIMED**
(THOUSANDS, SEASONALLY
ADJUSTED)



**CONSUMER PRICE
INDEX,
LOS ANGELES
(1982-84=100)**

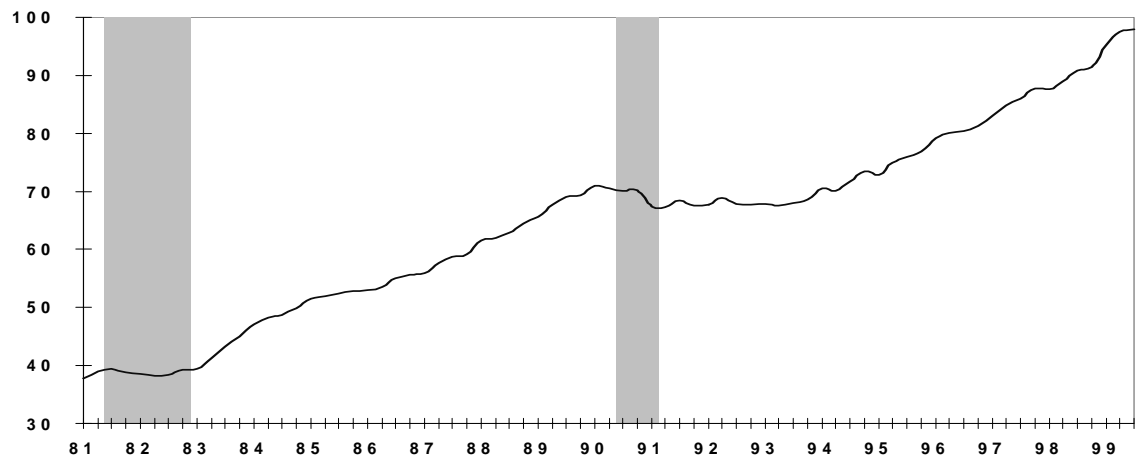


**CONSUMER PRICE
INDEX,
SAN FRANCISCO
(1982-84=100)**



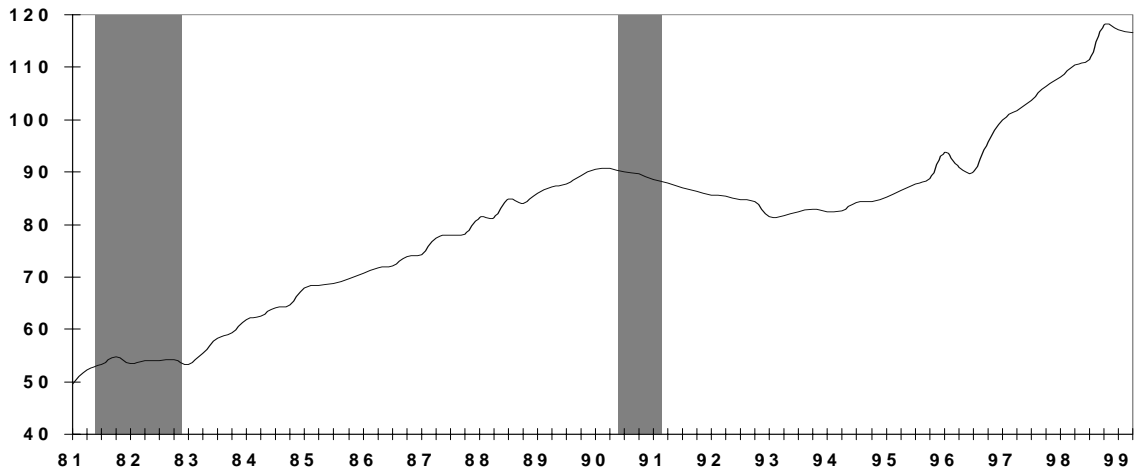
TAXABLE SALES

(DOLLARS IN BILLIONS,
SEASONALLY ADJUSTED)



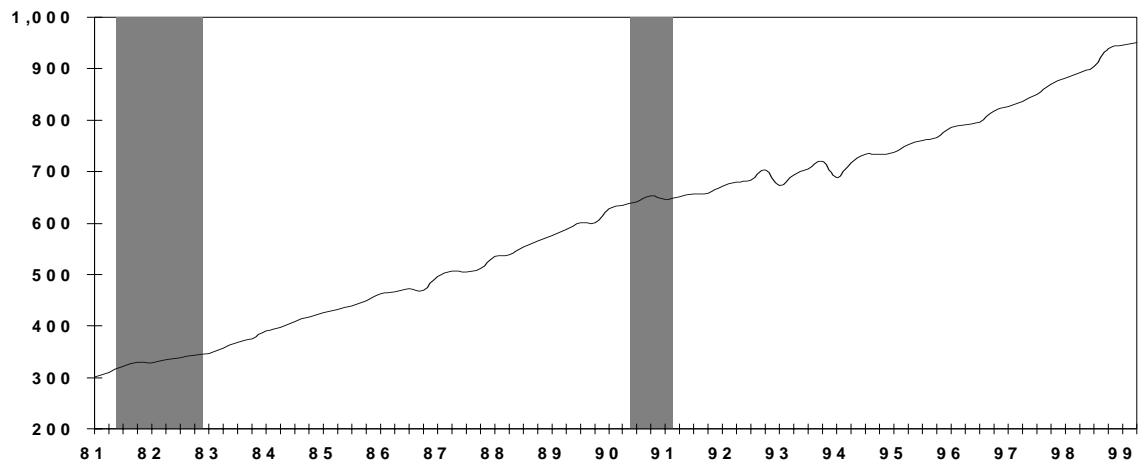
WAGES AND SALARIES IN MINING, CONSTRUCTION AND MANUFACTURING

(DOLLARS IN BILLIONS,
SEASONALLY ADJUSTED)



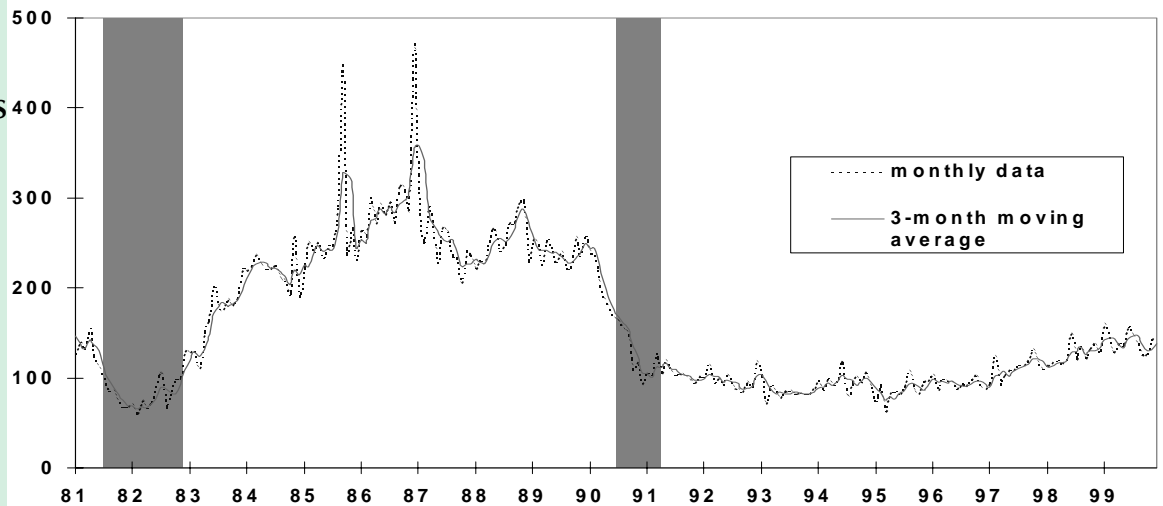
PERSONAL INCOME

(DOLLARS IN BILLIONS,
SEASONALLY ADJUSTED)



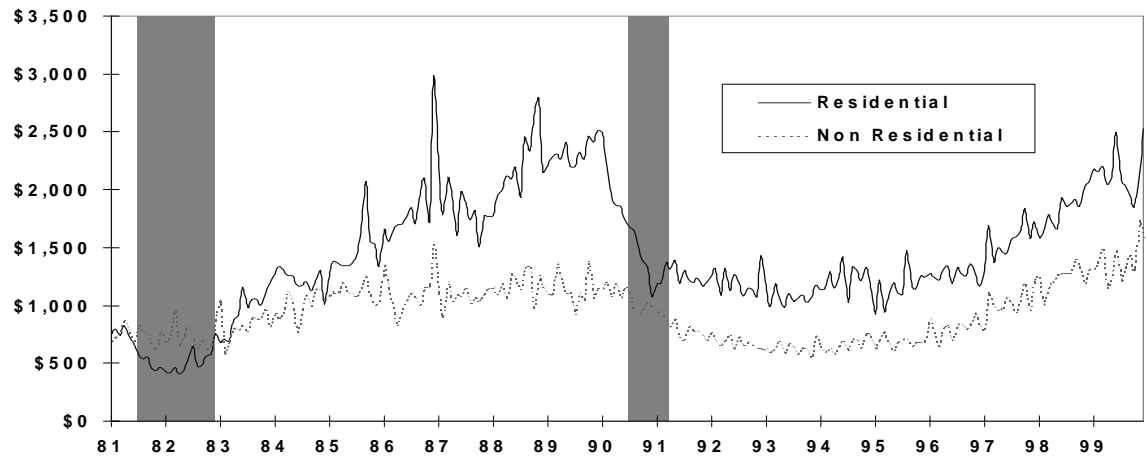
NEW HOUSING UNITS AUTHORIZED BY BUILDING PERMITS

(THOUSANDS, SEASONALLY ADJUSTED AT ANNUAL RATE)



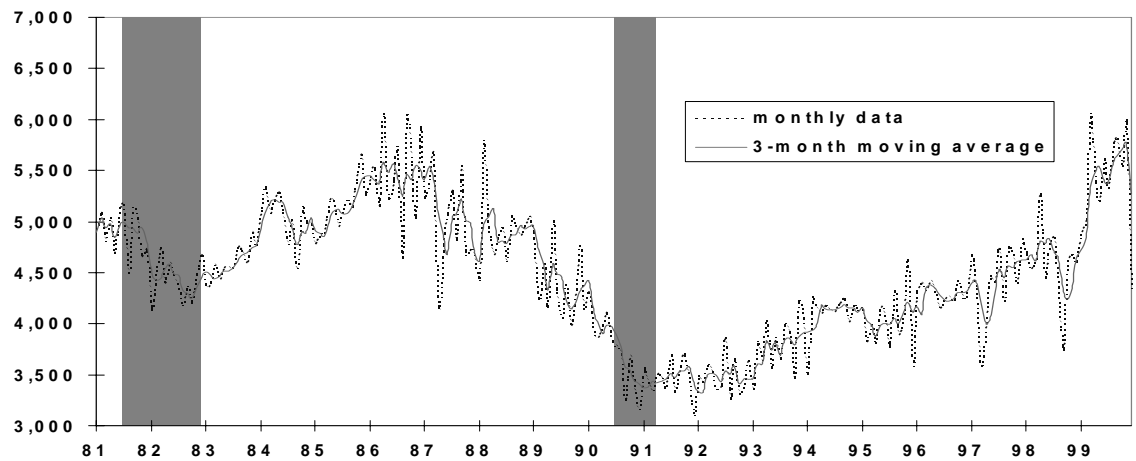
RESIDENTIAL & NONRESIDENTIAL BUILDING PERMIT VALUATION

(DOLLARS IN MILLIONS, SEASONALLY ADJUSTED)



NEW BUSINESS INCORPORATIONS

(SEASONALLY ADJUSTED)



CHRONOLOGY

The following summary lists economic, political, and natural developments which have influenced California economic indicators, and may account for unusual movements in the series. Appraisal of the charts will be facilitated in many cases by taking into consideration those factors which may be contributing to temporary directional changes in business activity which are not indicative of significant changes in the economic situation of the State. In addition, major national and international events of general interest have also been included. A similar summary of event dating back to 1956 is available at the Department's home page at: <http://www.dof.ca.gov/>

1998

January 5

Bond prices surged sending the 30-year Treasury to a record low yield of 5.73 percent, while comparable government-bond yields reached their lowest levels since the 1960s.

February 2

Standard and Poor's stock index passed the 1000 milestone for the first time.

February 27

Fourth quarter 1997 GDP growth rate revised to 3.9 percent, down from an initial estimate of 4.3 percent.

March 1

California's minimum wage raised from \$5.15 to \$5.75.

Winter

El Nino-fueled storms caused widespread flooding and landslides in California.

Thirty-five counties declared federal disaster areas. The State's agriculture industry estimates a flood-related loss of \$57.4 million so far.

March 19

The U.S. trade deficit for January widened to its worst level in six years.

March 20

Boeing plans to reduce approximately 6,200 jobs in California by the year 2000.

March 24

Xerox Corp. plans to cut 10,000 jobs worldwide or 11 percent of its workforce.

March 30

OPEC agreed to cut crude-oil production by 1.25 million barrels a day.

April 6

Dow Jones Industrial average topped the 9000 mark.

CHRONOLOGY

...CONTINUED

April 8	Tornadoes swept the South causing death and significant property damage.
April 13	NationsBank formally announced its merger with BankAmerica while BancOne confirmed its planned combination with First Chicago.
April 14	Intel announced that it will eliminate up to 3,000 jobs over the next six months.
April 22	National Semiconductor plans to cut its worldwide workforce by 10 percent, or about 1,400 people.
May 6	Compaq plans to eliminate 15,000 jobs following its purchase of Digital Equipment
June 4	Motorola plans to layoff 10 percent of its workforce, or about 15,000 workers.
June 5-July 28	United Auto Workers strike at General Motors.
June 8	Wells Fargo & Co. and Norwest agreed to merge.
June 12	California's unemployment rate fell in May to its lowest level in nearly 8 years.
June 18	Texas Instruments plans to eliminate 3,500 jobs worldwide, about 8 percent of its payroll.
June 24	OPEC agreed to cut crude-oil production by 1.4 million barrels per day. June 25 Rockwell International Corporation will cut 9 percent of its workforce, or 3,800 jobs.
June 26	El Niño damage to California's agricultural industry soars to \$422 million. Lockheed announced its plan to lay off 2,500 workers at Sunnyvale, California.
June	Japan officially declares a recession.
June 29	Chinese and U.S. companies signed \$1.1 billion in new business deals, including China's agreement of intent to purchase 27 Boeing Co. jetliners.
July 10	IMF agreed to provide Russia with an assistance package worth \$14 billion.
July 16	Lockheed Martin called off its proposed merger with Northrop Grumman. The Nasdaq composite edged over 2,000 for the first time.
August 13	Boeing to transfer selected 737 assembly processes to Long Beach, California.
August 14	California agriculture flourished in 1997, breaking records in both production and income NationsBank and BankAmerica merger gets federal approval.
August 17	Golden State Bancorp and California Federal Bank agreed to merge.
August 31	The Dow Jones Industrial average fell 512.61 points wiping out what remained of the year's gains. The Nasdaq Composite fell 140.43, its worst point drop ever.
September 2	Northwest Airlines issued layoff notices to 27,500 employees, or 55 percent of its workforce.
September 15	Rockwell International Corp. to eliminate around 900 jobs.
September 17	Citigroup expects to eliminate about 8,000 jobs by year end, or 5 percent of its workforce.
September 21	Russia devalues currency and restricts international transactions including debt repayments. Financial firms have lost more than \$8 billion so far in the fallout from Russia's financial collapse.
September 29	Federal funds rate reduced from 5.50 percent to 5.25 percent. Dow Jones Industrial average fell 237.90 points the next day.
October 2	California's credit rating was upgraded by Moody's Investors Service Hewlett-Packard Co. will eliminate 2,500 jobs or 2 percent of its workforce.
October 6	Washington Mutual Inc. will close 161 branches in California as a result of its Home Savings of America acquisition.
October 7	Raytheon Co. to cut workforce by 14,000.
October 8	Packard Bell NEC to cut U.S. workforce by 20 percent.
October 12	Merrill Lynch will cut work force by 3,400 or 5 percent.
October 15	Federal funds rate reduced from 5.25 to 5.00 percent. Discount rate reduced from 5.00 to 4.75 percent. The Dow Jones Industrial average rose to more than 330 points and led to rallies in European, Asian and Latin American stock markets. Canada and Argentina followed with rate cuts of their own.

CHRONOLOGY

...CONTINUED

October 30	Third quarter GDP jumped to an annual rate of 3.3 percent exceeding estimates.
November 12	Brazil reached a pact with leading countries and lenders on a \$42 billion rescue package, in a move aimed at preventing the financial crisis from spreading throughout South America.
November 17	Federal funds rate reduced from 5.00 to 4.75 percent. Discount rate reduced from 4.75 to 4.50 percent.
December 1	Exxon and Mobil confirmed their plans to merge, creating the world's largest oil producer.
December 2	NEC Electronics lays off about 400 workers or 13 percent of its U.S. workforce.
December 9	MCI WorldCom Inc. plans to layoff about 3,750 or between 3 to 5 percent of its workforce. Trans World Airlines announced its biggest plane order ever, confirming it has placed orders and options for up to 250 Airbus and Boeing jets.

1999

January 1	A new reserve currency, the "euro" is introduced, creating a single market in Europe. It will be the currency of reference for the 11 countries participating in the European Monetary Union.
January 13	Brazil devalues its currency sending U.S. stocks into a free fall.
January 21	The 1998 trade deficit hit an all-time high of \$175 billion, 58 percent more than the shortfall recorded in 1997.
March 22	OPEC agreed to reduce crude oil production by 2.1 million barrels per day and maintain lower levels of output for a full year.
March 29	Dow Jones Industrial average topped the 10,000 mark.
April 9	The European Central Bank cut its key discount rate, for the first time, from 3.0 to 2.5 percent.
June 29	Federal funds rate raised from 4.75 to 5.00 percent.
July 28	GDP rose 2.3 percent in second quarter.
August 24	Federal funds rate raised from 5.00 to 5.25 percent. Discount rate raised from 4.50 to 4.75 percent.
September 21	A 7.6 magnitude earthquake hits Taiwan.
September 30	In 1998, the US poverty rate fell to its lowest in 20 years at 12.7 percent. Real median household income hit a record 3.5 percent growth surpassing its pre-recessionary peak in 1989, and for the first time since 1975, all four US regions experienced significant increases.
September 30	Second quarter GDP growth rate revised to 1.6 percent, the smallest gain in four years.
October 4	MCI WorldCom to buy Sprint.
October 13	Producer Price Index for finished goods jumped 1.1 percent in September, the largest monthly increase in 9 years.
October 15	California's unemployment rate dropped to 4.9 percent, the lowest since 1969.
October 27	GDP for third quarter grew at 4.8 percent, 2 nd quarter growth rate was revised upward to 1.9 percent from the original 1.6 percent.
November 1	Dow Jones & Co. added the technology leaders Microsoft and Intel as well as two other issues, to its industrial average, the first time that Nasdaq stocks have been included. It also dropped four companies that have been components for most of the 20 th century.
November 2	Nasdaq closed above the 3000 mark for the first time. Packard Bell says it will end its computer manufacturing business, close its Sacramento plant, and lay off 80 percent of its US workforce.
November 16	Federal funds rate raised from 5.25 to 5.50 percent. Discount rate raised from 4.75 to 5.00 percent.
November 17	Crude-oil futures hit an almost nine-year high, rising 90 cents to \$26.60 a barrel.
November 24	Third quarter GDP grew at an annual rate of 5.5 percent, well above previous estimates.
November 30	Exxon and Mobil merger approved by federal regulators.
December 2	The euro fell to parity with the dollar for the first time since its launch in January as Europe's common currency.

CHRONOLOGY

...CONTINUED

December 17

Pharmacia and Monsanto agreed to merge.

December 22

Third quarter GDP rose at 5.7 percent annual pace, above the previous estimate of 5.5 percent.

December 29

Nasdaq closed above the 4000 mark for the first time.

2000

January 27

Fourth quarter GDP grew at an annual rate of 5.8 percent.

February 2

Federal funds rate raised from 5.50 percent to 5.75 percent.

Discount rate raised from 5.00 percent to 5.25 percent.

February 4

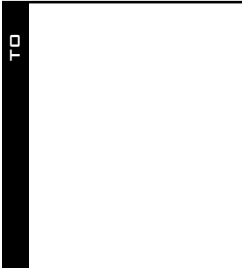
The nation's jobless rate at 4 percent is lowest in 3 decades.

February 7

Pfizer Inc. and Warner-Lambert Co complete merger deal.

CALIFORNIA
DEPARTMENT
OF FINANCE

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EIGHTH FLOOR
SACRAMENTO, CA
95814



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JAN/FEB	\$8.00
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JULY/AUG	4.05
SEPT/OCT	2.70
NOV/DEC	1.35

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